Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Accountants' Report and Financial Statements

December 31, 2011 and 2010

Good Samaritan Hospital
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December 31, 2011 and 2010

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying balance sheets of Good Samaritan Hospital (Hospital) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Samaritan Hospital as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

March 28, 2012

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2011 and 2010 by $1,532,903 (2%) and $6,478,851 (7%), respectively, as a result of continuing strong operations.
- The Hospital reported operating income in 2011 and 2010 of $5,882,434 and $3,881,486, respectively. The operating income in 2011 increased by 52% over the operating income reported in 2010, and 2010 increased by 154% compared to 2009. In 2011, the Hospital experienced significant growth in physician services.
- Net nonoperating revenues decreased by $3,604,803 in 2011 compared to 2010, primarily attributable to decreased market returns on investments. In 2010, nonoperating revenues decreased by $2,084,989 compared to 2009 as a result of decreased market returns on investments.

The total change in net assets in 2011 is an increase of $8,438,840 compared to an increase of $10,042,695 in 2010.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital, but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by $8,438,840 in 2011 over 2010 and net assets increased by $10,042,695 in 2010 over 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	$ 22,816,803	$ 21,688,663	$ 19,873,300
Other current assets	99,462,933	76,178,988	73,999,051
Capital assets, net	78,633,420	75,372,029	77,528,192
Other noncurrent assets	7,435,289	28,299,394	21,476,709
Total assets	$ 208,348,445	$ 201,539,074	$ 192,877,252
Liabilities			
Long-term debt	$ 22,195,335	$ 25,242,657	$ 28,355,054
Other current and long-term liabilities	15,805,319	14,387,466	12,655,942
Total liabilities	38,000,654	39,630,123	41,010,996
Net Assets			
Invested in capital assets, net of related debt	56,438,085	50,129,372	49,173,138
Restricted expendable	2,632,459	2,563,680	2,517,632
Unrestricted	111,277,247	109,215,899	100,175,486
Total net assets	170,347,791	161,908,951	151,866,256
Total liabilities and net assets	$ 208,348,445	$ 201,539,074	$ 192,877,252

A significant change in the Hospital's assets in 2011 is an increase in cash and investments of $1,532,903 (2%) as compared to an increase in 2010 of $6,478,851 (7%). This increase in cash and investments resulted primarily from successful operations.

Net patient service revenues increased in 2011 by $18,118,396 (12%) as compared to 2010, while net patient accounts receivable increased by $1,128,140 (5%), for a decrease of three days of revenue in accounts receivable at December 31, 2011 versus December 31, 2010. In 2010, patient accounts receivable decreased by $1,815,363 (9%) and net patient service revenues increased in 2010 by $12,762,748 (9%).

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by $8,438,840 (5%) compared to an increase in net assets during 2010 of $10,042,695 (7%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenue			
Net patient service revenue	$ 172,273,582	$ 154,155,186	$ 141,392,438
Other operating revenue	2,726,986	2,395,328	2,260,249
Total operating revenue	175,000,568	156,550,514	143,652,687
Operating Expenses			
Salaries and wages and employee benefits	98,039,307	86,841,056	81,315,677
Purchased services and professional fees	29,057,951	25,579,755	23,485,895
Depreciation and amortization	10,355,263	10,297,714	10,418,128
Other operating expenses	31,665,613	29,950,503	26,906,650
Total operating expenses	169,118,134	152,669,028	142,126,350
Operating Income	5,882,434	3,881,486	1,526,337
Nonoperating Revenue (Expenses)			
Investment income	202,387	4,871,387	7,558,090
Contributions, net of program expenses	3,415,809	2,465,244	2,012,282
Interest expense	(1,061,790)	(1,175,422)	(1,324,174)
Total nonoperating revenue (expense)	2,556,406	6,161,209	8,246,198
Increase in Net Assets	$ 8,438,840	$ 10,042,695	$ 9,772,535

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income for 2011 increased by $2,000,948 (52%) as compared to 2010. Operating income for 2010 decreased by $2,355,149 (154%) as compared to 2009. The primary components of the fluctuation in operating income are:

- An increase in salaries, benefits and wages for the Hospital's employees of $11,198,251 (13%) in 2011 compared to an increase in 2010 of $5,525,379 (6%).
- An increase in purchased services and professional fees of $3,478,196 (14%) in 2011 compared to an increase of $2,093,860 (9%) in 2010.
- These increases in expenses were offset by an increase in net patient service revenue of $18,118,396 (12%) for 2011 and $12,762,748 (9%) for 2010.

Net patient service revenue increased because the Hospital expanded services by employing a large number of physicians beginning in 2010 and continuing throughout 2011. Also, overall rate increases of approximately 5% were applied to most charges at the beginning of 2010.

Employee salaries and wages and benefits increased in 2011 and 2010 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of physicians, nurses and other health care professionals in the United States. Also, the Hospital recruited and hired a significant number of physicians during 2011 and 2010.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2011, medical supplies and prescription drug costs totaled $27,148,338 (16%) of total operating expenses. In 2010, they totaled $25,880,170 (17%) of total operating expenses, an increase of $1,268,168 (5%) over 2010. Some of the major factors contributing to medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment, contribution and grant income along with interest expense, all of which remained relatively constant in 2011 as compared to 2010 and 2009, except investment income. The Hospital recognized a decrease in its investment return in 2011 compared to 2010, resulting primarily from decreasing overall return rates in the market along with the Hospital maintaining relatively low risk holdings that provide lower return rates. Total investment return for 2011 was a positive return of $202,387 compared to a positive return in 2010 of $4,871,387. Contribution and grant income in 2011 was $3,415,809 compared to $2,465,244 in 2010.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2011 and 2010, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011 and 2010, the Hospital had $78,633,420 and $75,372,029, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011 and 2010, the Hospital purchased new capital assets costing $13,134,672 and $7,771,419, respectively.

Debt

At December 31, 2011 and 2010, the Hospital had $22,195,335 and $25,242,657, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. Except for new capital leases of $82,666 initiated in 2011 and $60,100 initiated in 2010, the Hospital issued no new debt in 2011 or 2010. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years. The ratings have remained positive in the range of A to AA during this period of time.

Other Economic Factors

Duke Energy has made significant progress in building a two and a half billion dollar coal gasification plant, which has created 1,000 jobs over a three-year period and 125 full time jobs at time of completion. Economic stability has remained strong in Knox County as it ranks 2nd in the state of Indiana for lowest unemployment.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's CFO by telephoning (812) 885-3891.

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Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Balance Sheets
December 31, 2011 and 2010

Assets

Σ ① = 40,323,611

22,816,803 Net A/R
13,776,000 Allowance
35,592,803 Gross A/R

	2011	2010
Current Assets		
Cash and cash equivalents	$ 37,691,152 ①	$ 15,058,439
Short-term investments	51,204,630	51,860,516
Restricted cash - current	2,632,459 ①	2,563,680
Patient accounts receivable, net of allowance; 2011 - $13,776,000; 2010 - $10,319,000	22,816,803	21,688,663
Other receivables	920,450	1,415,277
Supplies	1,843,029	1,191,108
Prepaid expenses and other	5,171,213	4,089,968
Total current assets	122,279,736	97,867,651
Noncurrent Cash and Investments		
Internally designated	66,979	10,209,452
Other long-term investments	5,021,172	15,391,402
	5,088,151	25,600,854
Capital Assets, net	78,633,420	75,372,029
Other Assets		
Deferred financing costs	692,529	790,900
Other	1,654,609	1,907,640
	2,347,138	2,698,540
Total assets	$ 208,348,445	$ 201,539,074

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 2,698,931	$ 3,151,735
Accounts payable	2,607,707	2,293,736
Accrued expenses	11,066,290	10,145,839
Accrued interest	292,013	304,281
Estimated amounts due to third-party payers	403,590	214,628
Estimated self-insurance costs	1,435,719	1,428,982
Total current liabilities	18,504,250	17,539,201
Long-Term Debt	19,496,404	22,090,922
Total liabilities	38,000,654	39,630,123
Net Assets		
Invested in capital assets, net of related debt	56,438,085	50,129,372
Restricted - expendable for debt service	2,632,459	2,563,680
Unrestricted	111,277,247	109,215,899
Total net assets	170,347,791	161,908,951
Total liabilities and net assets	$ 208,348,445	$ 201,539,074

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - $14,894,277; 2010 - $10,902,957	$ 172,273,582	$ 154,155,186
Other	2,726,986	2,395,328
Total operating revenue	175,000,568	156,550,514
Operating Expenses		
Salaries and wages	75,390,223	65,529,887
Employee benefits	22,649,084	21,311,169
Purchased services and professional fees	29,057,951	25,579,755
Supplies	27,148,338	25,880,170
Utilities	2,496,793	2,285,688
Other expenses	2,020,482	1,784,645
Depreciation and amortization	10,355,263	10,297,714
Total operating expenses	169,118,134	152,669,028
Operating Income	5,882,434	3,881,486
Nonoperating Revenue (Expense)		
Investment return	202,387	4,871,387
Interest expense	(1,061,790)	(1,175,422)
Noncapital contribution and grant income	3,415,809	2,465,244
Total nonoperating revenue	2,556,406	6,161,209
Excess of Revenues Over Expenses and Change in Net Assets	8,438,840 ✓	10,042,695
Net Assets, Beginning of Year	161,908,951 ✓	151,866,256
Net Assets, End of Year	$ 170,347,791 ✓	$ 161,908,951

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 171,640,269	$ 151,733,531
Payments to suppliers and contractors	(60,165,634)	(54,420,445)
Payments to employees	(99,153,769)	(87,903,019)
Other receipts	2,726,986	2,395,328
Net cash provided by operating activities	15,047,852	11,805,395
Noncapital Financing Activity - grants and gifts	3,415,809	2,465,244
Capital and Related Financing Activities		
Principal paid on long-term obligations	(3,129,988)	(3,172,497)
Interest paid on long-term obligations	(1,049,522)	(1,164,547)
Intangible assets acquired through acquisition of physician practices	-	(765,842)
Proceeds from sale of capital assets	-	52,660
Purchase of capital assets	(13,052,006)	(7,711,319)
Net cash used in capital and related financing activities	(17,231,516)	(12,761,545)
Investing Activities		
Interest and dividends	1,721,617	1,938,372
Proceeds from disposition of investments	49,981,765	43,548,858
Purchase of investments	(30,302,814)	(39,545,568)
Net cash provided by investing activities	21,400,568	5,941,662
Increase in Cash and Cash Equivalents	22,632,713	7,450,756
Cash and Cash Equivalents, Beginning of Year	15,058,439	7,607,683
Cash and Cash Equivalents, End of Year	$ 37,691,152	$ 15,058,439
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 5,882,434	$ 3,881,486
Depreciation and amortization	10,355,263	10,297,714
Loss on disposal of capital assets	56,392	32,002
Provision for uncollectible accounts	14,894,277	10,902,957
Changes in operating assets and liabilities		
Patient and other accounts receivable	(15,527,590)	(13,324,612)
Supplies	(651,921)	(137,190)
Prepaid expenses and other assets	(1,502,321)	(1,557,784)
Estimated amounts due to third-party payers	188,962	67,717
Accounts payable and accrued expenses	1,352,356	1,643,105
Net cash provided by operating activities	$ 15,047,852	$ 11,805,395
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ 82,666	$ 60,100

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

The Good Samaritan Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

Good Samaritan Hospital Physician Services, Inc. (Physician Services) is also a blended component unit of the Hospital. The primary government appoints a voting majority of Physician Service's board and a financial benefit/burden relationship exists between the Hospital and Physician Services. Although it is legally separate from the Hospital, Physician Services is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions, principally federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

	Years
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	5 - 20

Intangible Assets

Intangible assets represent assets recognized during business purchases during 2011 and 2010. The intangible assets are subject to amortization and are deemed to have a weighted-average useful life of approximately five to ten years. The amortized cost of the assets was $1,340,744 and $1,561,280 at December 31, 2011 and 2010, respectively. The Hospital recognized amortization expense of $220,537 and $99,430 during 2011 and 2010, respectively.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Foregone charges for charity care approximated $15,055,000 for 2011 and $12,950,000 for 2010. Estimated cost based on the Hospital’s records was $6,037,158 for 2011 and $5,398,891 for 2010.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Physician Services is exempt from income taxes under Section 509(a)(3) of the Internal Revenue Code and a similar provision of state law. Physician Services is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient non-acute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately $3,200,000 of net patient service revenue related to the supplemental payment program for the year ended December 31, 2011 and approximately $3,400,000 for the year ended December 31, 2010.

Effective January 1, 2008, the State of Indiana began operating an insurance plan for the benefit of Indiana residents without health insurance. The plan, referred to as the Healthy Indiana Plan (HIP), will be funded through an additional state cigarette tax and with the use of a portion of the DSH funds described above. As such, the level of future DSH payments may also be negatively affected.

In 2011, the Indiana General Assembly passed a law allowing the usage of a Provider Assessment Fee. The State of Indiana submitted certain Medicaid State Plan Amendments to the Centers for Medicare and Medicaid Services (CMS) to incorporate a Provider Assessment Fee, requesting retroactive approval to July 1, 2011. The purpose of the Provider Assessment Fee would increase Medicaid base fee for service and diagnosis related group payment rates to Indiana hospitals and reduce the level of Medicaid lump sum payments made under the existing Medicaid Supplemental Payment programs. Management does not believe the implementation of the proposed Provider Assessment Fee will have a material difference in Medicaid revenues or the financial statements, taken as a whole.

Approximately 44% and 46% for 2011 and 2010, respectively, of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds that are deposited in approved financial institutions in the event of financial institution failures.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2011 and 2010, the Hospital had the following investments and maturities:

	2011		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 31,597,337	$ 31,597,337	$ -
Money market mutual funds	34,010,120	34,010,120	-
	$ 65,607,457	$ 65,607,457	$ -

	2010		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 32,387,416	$ 32,387,416	$ -
Money market mutual funds	14,382,207	14,382,207	-
U.S. treasury obligations	3,144,288	1,727,676	1,416,612
U.S. agencies obligations	6,750,937	4,827,821	1,923,116
	$ 56,664,848	$ 53,325,120	$ 3,339,728

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 70% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U.S. Government bonds, bank certificates of deposits, and U.S. Treasury bonds among other government agencies. Such investments are to be insured by the U.S. Government or covered by applicable Federal and State Insurance programs.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2011	2010
Carrying value		
Deposits	$ 31,008,935	$ 38,418,641
Investments	65,607,457	56,664,848
	$ 96,616,392	$ 95,083,489
Included in the following balance sheet captions		
Cash and cash equivalents	$ 37,691,152	$ 15,058,439
Short-term investments	51,204,630	51,860,516
Restricted cash - current	2,632,459	2,563,680
Internally designated	66,979	10,209,452
Other long-term investments	5,021,172	15,391,402
	$ 96,616,392	$ 95,083,489

Investment Return

Investment return for the years ended December 31, 2011 and 2010 consisted of:

	2011	2010
Interest and dividend income	$ 1,721,617	$ 1,938,372
Realized gains from sales of investments	218,121	182,673
Net increase (decrease) in fair value of investments	(1,737,351)	2,750,342
	$ 202,387	$ 4,871,387

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2011 and 2010 consisted of:

	2011	2010
Medicare	$ 7,020,724	$ 7,325,469
Medicaid	4,515,110	959,287
Other third-party payers	7,527,664	9,277,905
Patients	17,529,305	14,445,002
	36,592,803	32,007,663
Less allowance for uncollectible accounts	13,776,000	10,319,000
	$ 22,816,803	$ 21,688,663

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,728,852	$ -	$ -	$ -	$ 5,728,852
Land improvements	5,332,828	214,633	(6,177)	-	5,541,284
Buildings and leasehold improvements	76,118,801	146,366	-	2,568,107	78,833,274
Equipment	121,089,980	427,979	(2,081,930)	7,263,990	126,700,019
Construction in progress	4,934,631	12,345,694	-	(9,832,097)	7,448,228
	213,205,092	13,134,672	(2,088,107)	-	224,251,657
Less accumulated depreciation					
Land improvements	3,099,471	311,474	(6,177)	-	3,404,768
Buildings and leasehold improvements	42,901,053	2,462,111	-	-	45,363,164
Equipment	91,832,539	7,043,304	(2,025,538)	-	96,850,305
	137,833,063	9,816,889	(2,031,715)	-	145,618,237
Capital assets, net	$ 75,372,029	$ 3,317,783	$ (56,392)	$ -	$ 78,633,420

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,728,852	$ -	$ -	$ -	$ 5,728,852
Land improvements	4,882,237	155,372	-	295,219	5,332,828
Buildings and leasehold improvements	75,029,850	48,512	(29,543)	1,069,982	76,118,801
Equipment	123,957,758	419,977	(7,560,742)	4,272,987	121,089,980
Construction in progress	3,425,261	7,147,558	-	(5,638,188)	4,934,631
	213,023,958	7,771,419	(7,590,285)	-	213,205,092
Less accumulated depreciation					
Land improvements	2,845,754	281,506	(27,789)	-	3,099,471
Buildings and leasehold improvements	40,587,938	2,313,115	-	-	42,901,053
Equipment	92,062,074	7,248,299	(7,477,834)	-	91,832,539
	135,495,766	9,842,920	(7,505,623)	-	137,833,063
Capital assets, net	$ 77,528,192	$ (2,071,501)	$ (84,662)	$ -	$ 75,372,029

Construction in progress includes architectural and other planning costs for the upcoming Hospital expansion, among other projects.

Note 6: Operating Leases

The Hospital leases various facilities and equipment under operating leases expiring at various dates through 2018. Total rental expense in 2011 and 2010 for these operating leases was approximately $1,180,318 and $308,081, respectively.

Future minimum lease payments under operating leases as of December 31, 2011 were:

2012	$ 1,158,036
2013	1,103,996
2014	547,554
2015	437,706
2016	386,187
2017-2018	715,017
	$ 4,348,496

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $200,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	$ 1,428,982	$ 1,207,778
Current year claims incurred and changes in estimates for claims incurred in prior years	16,405,526	15,101,185
Claims and expenses paid	(16,398,789)	(14,879,981)
Balance, end of year	$ 1,435,719	$ 1,428,982

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2002 (a)	$ 10,162,708	$ -	$ 1,388,959	$ 8,773,749	$ 1,515,000
Lease revenue bonds payable, 2004 (b)	13,709,228	-	777,871	12,931,357	770,000
Capital lease obligations	1,370,721	82,666	963,158	490,229	413,931
Total long-term debt	$ 25,242,657	$ 82,666	$ 3,129,988	$ 22,195,335	$ 2,698,931

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2002 (a)	$ 11,496,667	$ -	$ 1,333,959	$ 10,162,708	$ 1,455,000
Lease revenue bonds payable, 2004 (b)	14,457,099	-	747,871	13,709,228	755,000
Capital lease obligations	2,401,288	60,100	1,090,667	1,370,721	941,735
Total long-term debt	$ 28,355,054	$ 60,100	$ 3,172,497	$ 25,242,657	$ 3,151,735

(a) The lease revenue refunding bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of $21,270,000 dated September 1, 2002, which bear interest at 3.50% to 5.25%. The Bonds are payable in semi-annual installments through July 1, 2017. The Hospital is required to make semi-annual deposits to the debt service fund held by the trustee. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as restricted cash in the balance sheets.

Upon issuance and delivery of the Bonds, the Hospital defeased its outstanding 1993 bonds in the total principal amount of $18,675,000. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 1993 bonds at the time of the defeasance. Accordingly, the 1993 bonds, aggregating $9,365,000 at December 31, 2011 and $10,640,000 at December 31, 2010, remain outstanding, but are excluded from the Hospital's balance sheets.

The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	$ 1,900,165	$ 1,515,000	$ 385,165
2013	1,898,185	1,575,000	323,185
2014	1,896,795	1,640,000	256,795
2015	1,902,683	1,720,000	182,683
2016	1,893,626	1,790,000	103,626
2017	554,907	533,749	21,158
	$ 10,046,361	$ 8,773,749	$ 1,272,612

(b) The lease revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of $17,210,000 dated February 1, 2004, which bear interest at 2.00% to 5.00%. The Bonds are payable in semi-annual installments through January 15, 2024. The Hospital is required to make semi-annual deposits to the debt service fund held by the trustee. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the balance sheet.

The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	$ 1,333,900	$ 770,000	$ 563,900
2013	1,339,481	805,000	534,481
2014	1,348,262	845,000	503,262
2015	1,323,200	860,000	463,200
2016	1,342,825	925,000	417,825
2017 - 2021	6,620,375	5,290,000	1,330,375
2022 - 2024	3,597,701	3,436,357	161,344
	$ 16,905,744	$ 12,931,357	$ 3,974,387

Capital Lease Obligations

The Hospital is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2011 totaled $5,398,080, net of accumulated depreciation of $5,069,369. Assets under capital leases at December 31, 2010 totaled $5,986,437, net of accumulated depreciation of $5,147,253. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.20% to 8.75% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	$ 421,517
2013	45,708
2014	24,337
2015	8,578
Total minimum lease payments	500,140
Less amount representing interest	9,911
Present value of future minimum lease payments	$ 490,229

Note 10: Restricted Net Assets

At December 31, restricted expendable net assets were available for the following purposes:

	2011	2010
Debt service	$ 2,632,459	$ 2,563,680

At December 31, 2010, approximately $10,200,000 of unrestricted net assets had been designated by the Hospital's Board of Governors for capital acquisitions. Designated net assets remain under the control of the Board of Governors, which may at its discretion, later use these net assets for other purposes. During 2011, these funds were undesignated and are now available for operations of the Hospital.

Note 11: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's Board of Governors. The current contributions rate is 7% of the first $9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan in 2011 and 2010 was $4,634,691 and $4,242,645, respectively.

Note 12: Contingencies and Commitments

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Subsequent Events

In April 2012, the Hospital will be issuing revenue bonds in an estimated amount of $86 million. The proceeds will primarily be used to finance a significant expansion of the Hospital.

Note 14: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts that could negatively impact the Hospital's ability to maintain sufficient liquidity.